



External Audit Report

Audit of Regional Toll Revenue – City of Dallas

TxDOT Compliance Division

Objective and Scope

To determine whether the City of Dallas (City) has effective internal controls in place to ensure Regional Toll Revenue (RTR) funds are managed in accordance with applicable funding agreements and verify whether costs are allowable and adequately supported.

The scope of this audit included current processes and procedures implemented by the City to manage RTR funds and all RTR agreements between the City and TxDOT.

Overall Conclusion

The City's internal controls were not effective to ensure Regional Toll Revenue funds were managed in accordance with applicable funding agreements. Specifically, TxDOT identified \$20,880 in unsupported/questioned costs due to control weaknesses over monthly and status reporting, and agreement closeout. Payments to the City were supported by sufficient documentation and were allowable per TxDOT agreements. However, the City did not have processes in place for maintaining vendor suspension and debarment verifications prior to contract execution.

The City's Internal Ethics and Compliance Program meets the requirements of 43 Texas Administrative Code (TAC) 10.51. City personnel appropriately approve vendor invoices prior to payment and interest is allocated to RTR agreements each month based on the City's internal processes. The City reconciles bank transactions with the City's financial system daily using an automated software. The City has appropriately and timely completed environmental reviews as required by agreements.

City Management's responses and action plans are included in Appendix II beginning on page 7 of this report.

Background

The RTR program was funded by an upfront comprehensive development agreement (CDA) concession payment and excess toll revenues generated in the Dallas-Fort Worth region. Projects use standard agreement templates developed in partnership between the North Central Texas Council of Government's (NCTCOG) Metropolitan Planning Organization (MPO) Regional Transportation Council (RTC) and TxDOT at the inception of the program.

In 2006, the Texas Transportation Commission approved a memorandum of understanding with the RTC requiring RTC-selected agreements to be financed using RTR funds upon concurrence from the Commission. RTR funding for Texas State Highway 121 and 161 includes an initial deposit of approximately \$3.6 billion and \$354 million in additional toll revenues.

Off-system projects are either reimbursement-based or advance-based agreements. For reimbursement-based agreements, the City requests reimbursements from TxDOT for incurred actual costs throughout the agreement. At the end of the agreement, the City is required to submit final closeout documentation to receive the retainage amount. For advance-based agreements, the City is required to keep the awarded amount in an interest-bearing account after receiving the RTR award amount from TxDOT and provide monthly reporting to NCTCOG throughout the agreement. At the end of the agreement, the City is required to return unexpended funds and interest earned to TxDOT.

Since program inception, the City has been awarded 17 RTR agreements totaling \$55,940,331 (\$65,377,742 including the local match) which reflects 1.6% of the \$3.6 billion. Seven agreements are reimbursement-based totaling \$13,611,003, and ten of the agreements are advance-based totaling \$51,766,739.

Results

Expenditures

Expenditures were supported by sufficient documentation and were allowable per TxDOT agreements. For the three projects tested, expenditures were for approved cost phases, actual expenditures did not exceed the amount budgeted, expenditures were incurred in the correct period of availability, matching requirements were met, and match funds used were allowable.

Unsupported/Questioned Costs

The City did not always return all excess funds to TxDOT for advance-based agreements, resulting in \$20,880 in unsupported/questioned cost for the RTR program. The City does not have sufficient financial processes in place to appropriately close projects and submit documentation to TxDOT. The City did not retain sufficient documentation to support expenditures to appropriately calculate excess funds. Therefore, the City was unable to provide auditors adequate documentation to support the costs and interest earned calculated on the closeout documentation. Incorrectly calculating unexpended funds and interest earned may result in an incorrect amount of funds returned to TxDOT and reduce available RTR project funding. For two advance-based agreements tested, all excess funds, including interest earned, were not returned to TxDOT as required by article 5 of the agreements.

- CSJ 0918-45-886 – Trinity Strand

The City's financial system shows \$143,823 in excess costs for the project due to unused funds; however, the City only returned \$125,408 of those excess funds to TxDOT, resulting in \$18,415 in questioned costs.

- CSJ 0918-47-055 - Kessler Theater Pedestrian Amenities

The City's financial system shows \$2,465 in interest earned for the project that have not been returned to TxDOT as required, resulting in \$2,465 in questioned costs.

Recommendation: Return \$20,880 in unsupported costs to TxDOT for deposit in the RTR program. Develop and implement internal controls to ensure proper documentation retention, closeout of projects, and timely return of all excess funds as required.

Agreement Closeout

The City did not have sufficient processes in place to timely close projects in accordance with agreement requirements. In addition, the City did not perform audits of costs for all 5 agreements tested following project completion as required by article 15 of the advance-based agreements and article 9 of the reimbursement-based agreements. Not completing a closeout audit of costs increases the risk the City may incorrectly calculate unexpended funds and interest earned, resulting in an incorrect amount of funds returned to TxDOT and reduced RTR project funding available.

For two reimbursement-based projects tested, the City did not submit closeout reports to NCTCOG within 60 days of project completion as required by article 11.3 of the agreements. Additionally, the City did not consistently provide timely status reports to NCTCOG as required by article 11.4 of the agreements.

- CSJ 0918-47-025 - Continental Mixed-Use Sustainable Development

The project was completed in October 2013, but the City did not submit the closeout report to NCTCOG until June 2017.

- CSJ 0918-47-032 - Atmos Lofts Mixed Use Development Sustainable Development Infrastructure

The project was completed in April 2013 and closeout report was submitted to NCTCOG in July 2013. The status report was due to NCTCOG in August 2015; however, the City did not submit the report to NCTCOG until March 2020.

- CSJ 0918-47-029 - Edison/Hi Line Sustainable Development Infrastructure

The status report was due to NCTCOG in March 2015; however, the City has not submitted the report as required.

For two advance-based projects tested, the City did not return excess funds, including interest earned, to TxDOT within 30 days of project completion as required by article 5 of the agreements. For both agreements, the City stopped allocating interest to the project significantly before it returned excess funds to TxDOT, indicating additional interest should be allocated to the agreements by the City. The City was unable to provide sufficient documentation to determine if interest earned was returned appropriately as required by article 5 of the agreements.

- CSJ 0918-45-886 – Trinity Strand

The project was completed in August 2017 and the City stopped allocating interest to the project in December 2018. Excess funds and notification of completion were submitted to TxDOT in June 2019, significantly after project completion.

- CSJ 0918-47-055 - Kessler Theater Pedestrian Amenities

The project was completed in July 2015 and the City stopped allocating interest to the project in September 2019. Neither excess funds nor notification of completion have been submitted to TxDOT as required by the agreement.

Recommendation: Document and implement controls to ensure completion of RTR project closeouts and status reports within required timeframes. Document and implement procedures to ensure interest is accurately and consistently applied to projects from the time funds are received through the time they are returned to TxDOT. Perform past due audits of costs and timely remit identified excess funds and interest to TxDOT as required by the agreements.

Monthly Reporting

The City did not submit monthly reporting to NCTCOG for advance-based agreements as required by the agreements due to lack of sufficient internal processes. Per article 22 of the agreements, monthly reports to NCTCOG must include local match expenditures, expenditures by separate agreement phases, interest rate, interest earned, cumulative interest earned, and status of developing the agreement. Incomplete or inaccurate reporting distorts available program information for people making decisions regarding the program and may impact the funding available for future RTR projects.

For 6 of the 7 agreements (86%) tested, the City did not submit reporting to NCTCOG on a monthly basis. For all 7 agreements tested, the City's reports to NCTCOG did not consistently include all elements required by the agreement. Therefore, two State Single Audit Findings issued to the City for Fiscal year 2018 for lack of monthly reporting remain unimplemented for CSJ 0918-45-888 – Automated Traffic Management System Communications Network and CSJ 0918-45-887 – Dallas Central Business District Streetcar Circular Expansion.

Recommendation: Implement a process for project management staff to periodically review the City's Grants Management Policies and Procedures to ensure projects are managed in compliance with agreement requirements. Ensure all project reporting is complete with the required elements and submitted timely.

Suspension and Debarment

For three vendors, the City did not have evidence it performed suspension and debarment verifications prior to execution as required by article 27 of the advance-based agreements

and article 12.3 of the reimbursement-based agreements. Not performing suspension and debarment verifications increases the risk that the City may enter into a contract with a prohibited vendor. TxDOT verified the three vendors are not currently debarred or suspended.

Recommendation: Implement controls to ensure that required suspension and debarment verifications are performed and that documentation of suspension and debarment verifications are retained as required.

Appendix I

Project Information

This audit was conducted for the Dallas District (DAL), TxDOT Administration, and the Chief Audit and Compliance Officer. The audit was included in the fiscal year 2020 Compliance Division work plan and performed by Naima Hafeez (Engagement Lead), Shauntee Dobbins, Ruben Juarez, and Chez Slayton. Engagement fieldwork was conducted from March 2020 to May 2020.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives.

Methodology

- Gained an understanding of City's operating structure.
- Interviewed key DAL personnel.
- Interviewed key City personnel in the Transportation Department, Public Works Department, and Controller's Office.
- Reviewed the City's financial system.
- Reviewed City's Finance, Procurement, and Project Management Procedures.
- Reviewed City's internal processes for reporting and closeout.
- Tested expenditures for sufficient documentation and allowability.
- Reviewed a sample of procurements for compliance with applicable requirements.

Criteria

- Funding agreements and amendments between TxDOT and the City.
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control — Integrated Framework.
- Standards for Internal Control in the Federal Government (Green Book).
- City Policies and Procedures.
- NCTCOG Closeout Procedures.

Appendix II

Memorandum



DATE: July 29, 2020
TO: Cheryl Durkop, Director, TxDOT Compliance Division
SUBJECT: Response to TxDOT Compliance Division's Audit of Regional Toll Revenue – City of Dallas

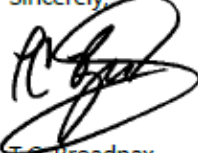
This letter acknowledges the City of Dallas received the *TxDOT Compliance Division's Audit of Regional Toll Revenue – City of Dallas* and submitted responses to the recommendations.

The City is satisfied TxDOT's audit concluded the City has appropriate mechanisms for ensuring:

- Amounts received from TxDOT are properly documented and allowable,
- Compliance with the requirements of 43 Texas Administrative Code 10.51, Internal Ethics and Compliance Program, and
- Environmental reviews are conducted timely and appropriately.

Further, the City has comprehensive procedures in place related to grant management. However, the City agrees to strengthen processes with additional internal controls related to document retention, project close-out, the timely return of excess funds, and the periodic review of policies and procedures.

Sincerely,



T.C. Broadnax
City Manager

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Finding: Unsupported/ Questioned Costs

The City did not always return all excess funds to TxDOT for advance-based agreements, resulting in \$20,880 in unsupported/questioned cost for the RTR program. The City does not have sufficient financial processes in place to appropriately close projects and submit documentation to TxDOT. The City did not retain sufficient documentation to support expenditures to appropriately calculate excess funds. Therefore, the City was unable to provide auditors adequate documentation to support the costs and interest earned calculated on the closeout documentation.

Recommendation:

Return \$20,880 in unsupported costs to TxDOT for deposit in the RTR program. Develop and implement internal controls to ensure proper documentation retention, closeout of projects, and timely return of all excess funds as required.

Views of Responsible Officials:

Management agrees with the audit finding. Management will return the \$20,880 in unsupported costs to TxDOT. Further, management will ensure the updated Project Management Procedures Manual includes internal controls to ensure proper documentation retention, closeout of projects, and timely return of all excess funds.

Corrective Action Plan:

The City will return \$20,880 to TxDOT for deposit in the RTR program. Additionally, the Project Management Procedures Manual was published on September 30, 2019 and revised on June 25, 2020. The revised manual includes checklists for project closeout, along with weblinks to other resources to be utilized while managing state and federal aid projects. Further, the City Controller's Office's Financial Compliance & Monitoring group will review the Project Management Procedures Manual to ensure it includes appropriate internal controls and is being consistently implemented.

On November 21, 2019, the North Central Texas Council of Governments' provided training on different types of funding sources, the process for executing federal aid projects, program rules, eligible expenses, a Sustainable Development Program agreement, and amendments to the agreement. Periodic refresher training will be conducted with staff to ensure that they remain aware of grant program and project requirements and closeout procedures, including an emphasis on proper document retention. The Senior Program Manager will perform monitoring to ensure the project manager submits all necessary documentation for project closeout and that all financial transactions are completed.

Implementation Date: March 31, 2021

Responsible Person: Senior Program Manager / Assistant Director, Relevant Departments

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Finding: Agreement Closeout

The City did not have sufficient processes in place to timely close projects in accordance with agreement requirements. In addition, the City did not perform audits of costs for all 5 agreements tested following project completion as required by article 15 of the advance-based agreements and article 9 of the reimbursement-based agreements.

Recommendation:

Document and implement controls to ensure completion of RTR project closeouts and status reports within required timeframes. Document and implement procedures to ensure interest is accurately and consistently applied to projects from the time funds are received through the time they are returned to TxDOT. Perform past due audits of costs and timely remit identified excess funds and interest to TxDOT as required by the agreements.

Views of Responsible Officials:

In general, management agrees with the audit finding. Management will ensure the updated Project Management Procedures Manual includes internal controls regarding identifying and communicating project closeouts and status report requirements for grants to program staff and performing a timely and accurate review of program expenditures during the grant's period of availability. Additionally, the City agrees to perform past due audits for the two advance-based agreements.

However, the City's current process for application of interest to projects from the time funds are received through the time they are returned to TxDOT is adequate to ensure accuracy and consistency. Grant monies are recorded in separate funds in the City's accounting system. Automated procedures are in place for calculating each grant fund's proportionate share of interest distribution, based on the cash balances of the fund compared to the total cash balances of all City funds receiving interest.

Corrective Action Plan:

The Project Management Procedures Manual was published on September 30, 2019 and revised on June 25, 2020. The revised manual includes checklists for project closeout and monthly reporting, along with weblinks to other resources to be utilized while managing state and federal aid projects. Further, the City Controller's Office's Financial Compliance & Monitoring group will review the Project Management Procedures Manual to ensure it includes appropriate internal controls and is being consistently implemented. In addition, management will perform past due audits of costs for the Trinity Strand and Kessler Theater Pedestrian Amenities agreements and timely remit identified excess funds and interest to TxDOT.

On November 21, 2019, the North Central Texas Council of Governments' provided training on different types of funding sources, the process for executing state and federal aid projects, program rules, eligible expenses, a Sustainable Development Program agreement, and amendments to the agreement. Periodic refresher training will be conducted with staff to ensure that they remain aware of grant program and project requirements and closeout procedures.

Implementation Date: March 31, 2021

Responsible Person: Assistant Director, Relevant Departments

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Finding: Monthly Reporting

The City did not submit monthly reporting to NCTCOG for advance-based agreements as required by the agreements due to lack of sufficient internal processes. Per article 22 of the agreements, monthly reports to NCTCOG must include local match expenditures, expenditures by separate agreement phases, interest rate, interest earned, cumulative interest earned, and status of developing the agreement.

Recommendation:

Implement a process for project management staff to periodically review the City's Grants Management Policies and Procedures to ensure projects are managed in compliance with agreement requirements. Ensure all project reporting is complete with the required elements and submitted timely.

Views of Responsible Officials:

Management agrees with the audit finding. Management updated the Project Management Procedures Manual, which includes procedures for state financial assistance and grants on September 30, 2019, with a revision on June 25, 2020. The Project Management Procedures Manual addresses internal controls to ensure that monthly reporting is completed and submitted as per the requirements of the grant. In addition, Management will implement a process to ensure Grants Management Policies and Procedures are periodically reviewed.

Corrective Action Plan:

The Project Management Procedures Manual was published on September 30, 2019 and revised on June 25, 2020. The revised manual includes checklists for project closeout and monthly reporting, along with weblinks to other resources to be utilized while managing state and federal aid projects. Further, the City Controller's Office's Financial Compliance & Monitoring group will review the Project Management Procedures Manual to ensure it includes appropriate internal controls and is being consistently implemented.

On November 21, 2019, the North Central Texas Council of Governments' provided training on different types of funding sources, the process for executing state and federal aid projects, program rules, eligible expenses, a Sustainable Development Program agreement, and amendments to the agreement. Periodic refresher training will be conducted with staff to ensure that they remain aware of grant program and project requirements and closeout procedures.

The Senior Program Manager will monitor and ensure that the project manager submits monthly invoicing to NCTCOG as required.

Management will also consider creating a City-wide procedure, such as an Administrative Directive, to require periodic review of departmental Grants Management Policies and Procedures.

Implementation Date: March 31, 2021

Responsible Person: Senior Program Manager/Assistant Director, Relevant Departments

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Finding: Suspension and Debarment

The City did not have evidence it performed suspension and debarment verifications prior to execution as required by article 27 of the advance-based agreements and article 12.3 of the reimbursement-based agreements.

Recommendation:

Implement controls to ensure that required suspension and debarment verifications are performed and that documentation of suspension and debarment verifications are retained as required.

Views of Responsible Officials:

Management agrees with the audit finding. Management updated the Project Management Procedures Manual, which includes procedures for state financial assistance and grants on September 30, 2019, with a revision on June 25, 2020. The Project Management Procedures Manual addresses steps that need to be taken while managing state and federal aid projects, including suspension and debarment verifications.

Corrective Action Plan:

The Project Management Procedures Manual includes a list of items that need to be addressed while managing state and federal aid projects, including suspension and debarment verifications. The revised manual includes checklists requiring suspension and debarment verifications to be retained, along with weblinks to other resources to be utilized while managing state and federal aid projects. Further, the City Controller's Office's Financial Compliance & Monitoring group will review the Project Management Procedures Manual to ensure it includes appropriate internal controls and is being consistently implemented.

The Senior Program Manager will monitor and ensure that the project manager has performed the required debarment and suspension check and that the documentation has been included in the project file.

Implementation Date: March 31, 2021

Responsible Person: Senior Program Manager/Assistant Director, Relevant Departments

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